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The Soviet bloc has made considerable progress in a program for the rapid expansion and modernization of its relatively small and obsolescent sea-going merchant fleet. Available evidence points to an increase in 1954 of as much as 375,000 gross registered tons, or about one seventh the size of the bloc's fleet of merchant vessels larger than 1,000 GRT. Substantially larger absolute additions are expected in 1955 and 1956.

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THE SOVIET WORLD

The Soviet note of 23 October, calling for a four-power conference in November, bore out previous indications that Moscow is attempting to frustrate ratification of the London agreements by threatening that German rearmament will block the settlement of other basic issues. The USSR constantly proclaims its willingness to discuss these issues--but without giving evidence of a desire to compromise on them. Moscow still professes a wish for free elections in Germany, but has made no proposal for any kind of election formula on which talks might be held. On Austria, the note continued to press for treaty talks without regard for the Western stipulation that a treaty must provide for withdrawal of foreign troops.

Recent developments in Hungary suggest that Matyas Rakosi, while retaining his position as first secretary of the Communist Party, has lost a significant portion of his power and influence. He was not mentioned in connection with the very significant meeting from 1 to 3 October at which the central committee emphatically re-endorsed the new course in Hungary.

Premier Nagy in a Szabad Nep editorial on 20 October specifically blamed "one-man leadership"--an obvious reference to Rakosi's role--for the harmful policies followed by the party and the government prior to the adoption of the new course and stated that only collective leadership is capable of overcoming the grave consequences of these mistakes.

The re-endorsement of the new course at the central committee meeting appears to have been made after an internal party struggle between the "doctrinaires," who tend to support at least a partial return to the harsh policies of the Stalinist era, and the "moderates," for whom Premier Nagy probably speaks.

India's prime minister Nehru arrived in Peiping on 20 October after stopping briefly at Rangoon for a talk with U Nu and at Hanoi for his first meeting with Ho Chi Minh. A gauge of Peiping's efforts to impress Nehru was his reception immediately after his arrival by Mao Tse-tung, who later broke with precedent by attending the Indian ambassador's dinner for Nehru.

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Accounts of Nehru's visit have filled the Chinese Communist press since 13 October. Speeches and press comments have stressed the two countries' long and peaceful association, their common experience with "colonialism," and India's role as a peacemaker. On the other hand, Indian press coverage of the visit has generally taken a harder line toward Communist China than heretofore and urged Nehru to seek assurances of Peiping's good intentions.

The trade agreement between China and India which was signed on 14 October on the eve of Nehru's departure for Peiping, appears, like those recently signed by Communist China and Indonesia, Ceylon, and Burma, to be political rather than economic in purpose. At the moment neither country seems to be planning a significant expansion in their trade, which in 1953 reached a total of only \$11,000,000.

The All-India Association of Democratic Lawyers, founded in Calcutta on 26 September, is apparently affiliated with the International Association of Democratic Lawyers, whose aim is to provide "legal" justification for international Communist policy and to defeat policies unfavorable to the Soviet Union. The objectives of the new association, which, like its parent organization, stresses the "defense of democratic liberties," are to bring about a ban on atomic and hydrogen weapons and acceptance of the principles of friendship enunciated by the prime ministers of India, China and Burma. A preparatory committee of the International Association is scheduled to meet in Calcutta in late October and a conference of "lawyers of Asian and adjoining countries" is scheduled there in December.

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**USSR INTENSIFIES CAMPAIGN FOR BETTER
RELATIONS WITH YUGOSLAVIA**

The Soviet Union has quickened the pace of its efforts to improve relations with Yugoslavia in recent weeks, with the objective of blocking the increasing Yugoslav co-operation with the West. While the Yugoslav regime can be expected to take every possible advantage of Soviet actions, its own self-interest seems to preclude any return to the Eastern bloc.

The Orbit campaign for normal relations started with the appointment of a Soviet ambassador to Belgrade in June 1953. Since then all of the Satellites except Poland have established full diplomatic relations and three have concluded modest trade agreements with Yugoslavia, border incidents have virtually ceased, critical Orbit propaganda has gradually disappeared, and agreement has been reached on some Danube River problems.

Efforts to improve relations have been accelerated and intensified during the past two months. On 16 September, the Soviet press and radio suddenly started carrying quotations from the Yugoslav press, carefully selected to give the impression of support for Soviet foreign policy, together with a few reports of economic progress in Yugoslavia. In addition, the anti-Tito clandestine Radio Free Yugoslavia ceased broadcasting on 29 September, and on 14 October the Yugoslav newspaper Borba reported that jamming of Radio Belgrade's Russian-language broadcasts had stopped. Polish book shops have been ordered to remove anti-Tito books from their shelves. Moscow, for the first time since 1948, has publicly admitted that the Yugoslav army and partisans played an important role in the liberation of Yugoslavia.

After a Soviet trade delegation signed a small-scale, short-term trade agreement with the Yugoslav Chamber of Foreign Trade in Belgrade on 1 October, Tito acceded to a Soviet request that he send a high-level delegation to Moscow to negotiate a one-year governmental trade treaty. The Yugoslavs expect that most of the Satellites will follow up existing and pending commercial agreements with proposals for longer-term government trade understandings.

Belgrade has reacted to these intensified Orbit efforts with statements of qualified approval and a few specific actions in return. Thus it has agreed to permit Soviet commercial overflights and to negotiate for reciprocal distribution of Soviet and Yugoslav films.

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Tito has stated that his country will not go "back to Moscow," but that co-operation with the West does not mean that Orbit offers should be rejected. The regime's propaganda and speeches, while far more moderate than in the past, still remind the Yugoslav people occasionally of past difficulties with the Soviet Union.

Yugoslav officials have stated that they will co-operate with the West for defense against aggression but cannot abandon their "independent" position. They approve unification of Europe but want no part in an organization founded only on anti-Communist ideological grounds. In their view, Soviet relaxation in Europe can be considered permanent and hence a basis for negotiations to improve relations among all European countries.

The Yugoslavs have seen in the Soviet withdrawal from the joint stock companies in the Satellites and the agreement to withdraw Soviet troops from Port Arthur an indication that the USSR may now be willing to accord more independence to Orbit nations. It appears, however, that Tito and his leaders would still discount any Soviet proposal which might lead to a return to the Orbit, even if the USSR went so far as to offer a relationship something like that between Moscow and Peiping.

Tito probably considers that his present position has given him practically a Western guarantee of national security, as well as military and economic aid, without infringement on Yugoslavia's independence or interference in its internal affairs. His regime is probably not above attempting to use flirtation with the Soviet bloc as a lever for improving its bargaining position with the West, however.

The increase in Soviet overtures appears to reflect a realization that previous efforts have not been sufficient to prevent a continuing Yugoslav move toward the West, as highlighted by the signing and speedy implementation of the Balkan alliance and the Trieste settlement. The Kremlin's recent tactics toward Yugoslavia fit its general European conciliation policy, but Moscow may expect they will be particularly productive in the case of Yugoslavia. Besides any direct effects they might have on the Communist regime there, they might also be expected to stir up suspicion of Tito in the West and possibly create dissension within the ranks of the Yugoslav party.

Moscow may plan eventually to make a serious proposal to Tito for an Eastern orientation, but it must recognize the considerations of self-interest which today would dictate a rejection by Belgrade. Moscow will probably make further gradual moves to improve the atmosphere and to test Yugoslavia's responses to the Soviet campaign in the near future, however.

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THE SCALBA GOVERNMENT AND COMMUNIST ELECTORAL GAINS

Recent local elections in Italy reveal a trend toward the extreme left. In approximately 350 municipal and provincial district elections held since the June 1953 national elections, only the Communists and their Nenni Socialist allies have shown over-all gains. They now appear to be averaging about 40 percent of the popular vote.

This trend is probably largely the result of "protest" votes against the central government's delay on socio-economic reforms. Although the Christian Democrats won a number of local contests, their strategy of enlisting the Monarchists and neo-Fascists in an "anti-Communist front" has in several instances, particularly in the economically depressed south, led to an increase in pro-Communist votes.

The American embassy has noted a virtual "collapse" of the rightist parties in local elections, and the small center parties do not have strong enough grass roots organizations to counter the leftists. The Christian Democrats recently launched organizational drives in southern Italy to compete with similar Communist efforts, but the leftward trend will probably continue unless the government demonstrates that it can and will carry out an enlightened domestic program.

On paper at least, the government has a program for reform of government-owned industries, new tax legislation, reorganization of the bureaucracy, unemployment relief, and other long-delayed social measures. This program, combined with the existing long-term program for land reform and development in the south, offers a platform from which the Christian Democrats could dispute Communist claims that the interests of the voters are being neglected.

The agreements on Trieste and German rearmament have, in Italian public opinion, freed Premier Scelba to concentrate on urgent domestic problems. Many of his proposed measures could be carried out simply by administrative action, and his majority in parliament, though small, is sufficient to pass legislation over both Communist and rightist opposition. His chief difficulty seems to be the intraparty feuds which have tended to paralyze initiative in his own Christian Democratic Party.

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The next six months may well be critical. Ineffectiveness now on the part of the Scelba coalition or the Christian Democratic Party's new leadership would lose the government further support. Although the next national elections are not due until 1958, the Sicilian elections next spring will provide an important indication of the government's ability to halt the steady trend toward the left.

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~~SECRET~~INDONESIAN GOVERNMENT INCREASINGLY
DEPENDENT ON COMMUNIST SUPPORT

The present crisis in Indonesia, the most serious during the present government's 15-month tenure, has resulted in the loss of part of the support of the minor parties and has left the coalition more than ever dependent on Communist votes in parliament. Both the government and President Sukarno appear determined that the coalition shall remain in office until the elections planned for next year, but growing discontent may yet bring about a change--possibly even through a military coup.

The first sign that a cabinet crisis was developing came early in October, when the two small Moslem parties represented in the government demanded the resignation of the ministers of finance and economic affairs, both members of the dominant National Party (PNI). The crisis deepened on 17 October, when the Greater Indonesian Association (PIR), the largest of the minor parties supporting the regime, threatened to withdraw its support unless the cabinet resigned by 25 October. When this demand was rejected two days before the deadline, the three PIR members of the cabinet resigned.

From the beginning, National Party leaders have indicated they would make a vigorous effort to remain in power, and they appear to be confident of success. This confidence is based on a number of factors. The government is not dependent on PIR support for a parliamentary majority. Moreover, the government seems to have satisfied other cabinet parties, very likely with economic inducements and with promises of a reshuffle which, however, probably would involve only the replacement of the members most objectionable to minor parties of the coalition.

A most important factor in its effort to remain in power is the continuing support the National Party receives from President Sukarno, the most influential leader in Indonesia, who has increasingly linked his future with the fortunes of that party.

Finally, the chances that the Ali cabinet will remain in power, at least for the immediate future, are strengthened by the promise of continued Communist support. With the withdrawal of PIR support, the 21 Communist parliamentary votes constitute the balance of power. D.N. Aidit, the secretary general of the Indonesian Communist Party (PKI), stated on 19 October that the Ali regime "must be maintained."

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There are indications that the Communists are prepared to exploit this made-to-order situation. Aidit is already on record as favoring the entry of Communists into the government if the PIR were to withdraw. While Premier Ali is unlikely to bring Communists into his cabinet, he undoubtedly will be compelled to make continuing concessions to them as long as their support is essential to maintain him in office.

Although Ali seems to have weathered the present crisis, his troubles are by no means over. The general incompetence of his administration, which has been marked by cases of flagrant corruption, has become increasingly apparent. The rapid deterioration of economic conditions in Indonesia during the past year is evidenced by soaring prices, curtailed imports, hoarding, and growing concern over currency stability.

The growing discontent fomented by this situation may well undermine the desire of various small parties to support an increasingly unpopular regime. Moreover, any favors Ali may bestow on the Communists will be resented by other factions supporting the government, particularly the Moslems in the cabinet. Further withdrawals, for these or other reasons, would precipitate a fresh and far more serious crisis for the government.

Meanwhile, there has been a renewal of reports of growing unrest in military circles. Disgust with the government's ineptitude has been aggravated by the continuing efforts of pro-Communist Defense Minister Iwa to whittle away the power of anti-Communist commanders.

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LATIN AMERICA EXPANDS TRADE WITH THE ORBIT

A sharp increase in Latin American trade with the Orbit this year and conclusion of new agreements providing for further trade indicate a new trend toward closer and more durable commercial relations with the Soviet bloc. This trend reflects not only the current Communist trade offensive, but also increasing Latin American interest in easing trade problems by exchanging hard-to-sell raw materials for Orbit capital equipment, fuel, and other imports required for politically urgent economic development. It is essentially economic problems of this nature which will be raised at the inter-American conference convening at Rio de Janeiro on 22 November.

Latin American trade with the Orbit rose in 1953 by 40 percent over the postwar low in 1952 and increased still further in 1954. Incomplete statistics indicate that the 1953 total of almost \$70,000,000 was probably exceeded as early as June of this year--though, as in the case of nearly all non-Orbit nations, it is still a very small percentage of total foreign trade. While Argentina, Brazil and Uruguay account for the bulk of this trade with the bloc, most Latin American countries are showing an increase.

By June the USSR had become Uruguay's best customer, with purchases of some \$20,000,000, and Brazilian exports to the Orbit almost equaled those for the whole of 1953. Argentina's first-quarter sales to the Orbit rose to more than \$23,000,000, while imports were over \$11,000,000.

The Orbit has been alert to exploit complaints against American economic policies. Unusual Soviet purchases of wool, for example, coincided with the imposition of American countervailing duties on wool tops. Czechoslovakia purchased Colombian coffee when the United States was protesting high coffee prices, and the USSR has offered premium prices for Chilean copper, which is embargoed to the Orbit.

Since many Latin American countries are vitally dependent on one or two basic exports and half of their trade is with the United States, they fear continuing pressure in the United States for restricting imports of such commodities as petroleum, wool, and lead. Argentina resents Washington's new import quotas for oats--39,300,000 bushels for Canada and 688,000 for "other countries." The Latin Americans also argue that their co-operation with the United States in political matters, including strategic trade controls, entitles them to American support of some plan to speed economic diversification and to reduce the hardships resulting from trade restrictions.

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Growing Latin American anxiety over world markets and commodity prices has led most countries to restrict the imports required for boosting productivity and investment. There has also been a sharp drop in the per capita growth in gross national products, the 1945-1951 average of 4.2 percent falling to 0.4 percent in 1953. The rapid increase in populations and the growing political power of the lower and middle classes have resulted in intense pressure on Latin American governments to improve living conditions.

To help finance the required economic development programs, Latin American nations are seeking loans, extended commercial credit and private foreign capital investment. Local funds have accounted for all but 5 percent of the some \$51 billion postwar investment thus far, and foreign capital inflow of about \$4 billion has been more than offset by the remittance of profits and other outflows exceeding \$8 billion.

Soviet efforts to capitalize on Latin America's financial difficulties were reflected in UN delegate Tsarapkin's speech last April expressing the USSR's willingness to accept deferred payment and Latin American currencies for capital goods. The USSR has also propagandized widely the \$30,000,000 credit for capital goods accorded Argentina under their August 1953 agreement, although the credit has apparently not been used.

Increasing Latin American responsiveness to Orbit overtures is reflected in both new and renewed trade agreements. Uruguay has signed its first agreements with the USSR and East Germany, and renegotiated Brazilian agreements with Czechoslovakia and Hungary are reported to call for expanded trade. Although trade goals set in the Argentine-Soviet agreement were not met last year, Argentina appears satisfied with the trade agreement and recently renewed it. Through trade with the Orbit, Argentina--which sees its traditional agricultural markets threatened by American surplus disposals--has been able to trade farm products for such essentials as Soviet petroleum, Czech machine tools, Hungarian diesel trains, and Polish coal.

New Latin American-Orbit trade negotiations now under way may foreshadow more lasting commercial relations, since sales of capital equipment may entail continuing sales of parts. Accumulating credit balances like Argentina's also exert pressure for continued trade.

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SECRET**SOVIET BLOC RAPIDLY EXPANDING SEA-GOING MERCHANT FLEET**

The Soviet bloc has made considerable progress in a program for the rapid expansion and modernization of its relatively small and obsolescent sea-going merchant fleet. Production in Orbit shipyards has been stepped up, particularly that of tankers, and procurement of new and used vessels of other types from non-Communist countries has been increased. In the category of merchant vessels larger than 1,000 GRT, the Orbit will add more than twice as much tonnage in 1954 as it acquired in 1953. Available evidence points to an increase in 1954 of as much as 375,000 gross registered tons or about one seventh the size of the bloc's sea-going merchant fleet. Substantially larger absolute additions are expected in 1955 and 1956.

Of the total tonnage added this year, about 40 percent will be obtained from the West. Imports on this scale provide major assistance to the bloc in enlarging its merchant marine fairly swiftly without having to divert more than a small proportion of shipbuilding capacity from naval construction.

The Soviet Union has had a high degree of success during 1954 in including merchant ship construction in trade agreements signed with Western European countries. In addition, the USSR, Poland and Czechoslovakia have contracted to purchase from Western firms used freighters totaling some 80,000 GRT. Further purchases are being negotiated. The high priority assigned to procurement of merchant ships from the West is reflected in the creation of a new Soviet trade monopoly, Sudoimport, to handle such deals.

By having some repairs performed in Western shipyards, Orbit countries are able to keep more labor on construction. Between January 1952 and June of this year, some 103 bloc vessels were repaired in Western yards. In more than half of these cases the duration of repairs was between one and three months, and 21 of the ships required overhauls which took even longer.

The Orbit has been aided in its procurement efforts by the increasingly loose interpretation of COCOM's "adequate justification" clause by Western European governments. Although Soviet bloc contracts account for only a very small percentage of total ship construction in any COCOM country, the Western European governments argue that such orders help to maintain full employment in shipyards.

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As yet, COCOM member countries have been unable to agree on a new set of controls for ship deliveries to the Orbit. A formula which was finally worked out in September at a meeting of the Consultative Group, the body which deals with control problems at the ministerial level, would resolve the long dispute over merchant ship quotas by permitting COCOM countries to deliver to the Orbit annually 200,000 tons of nonembargoed dry-cargo vessels of a speed not exceeding 15.5 knots. A special provision would permit Denmark to sell 15,000 GRT of faster ships annually if necessary for vital economic reasons. There is no assurance, however, that even this plan, which would allow much larger deliveries than originally proposed by the United States, will be accepted by Great Britain.

COCOM is apparently agreed on continuing the embargo of tankers. This embargo was at least partly responsible for the inauguration of tanker construction in the Soviet Union on ways which were previously used for building cruisers. The USSR has built and put into service since 1952 at least eight modern long-range, ocean-going tankers of the Leningrad (7,961 GRT) class. Finland and Sweden, not COCOM members, both build small tankers for the bloc.

Most of the other construction of merchant vessels in bloc yards is limited to coastal-type, dry-cargo ships, fishing vessels, tugs, and inland-waterway craft. While there is evidence that Satellite ship construction is running behind plan, particularly in East Germany, chiefly because of shortages of components, bloc output as a whole can be expected to increase gradually but steadily for the next three years.

Even with the substantial additions to date of Orbit and Western-built vessels, the bloc fleet of vessels over 1,000 GRT remains small and of poor quality by Western standards. On 1 June 1954 this fleet, in terms of gross registered tons, was little more than one tenth the size of the American sea-going merchant fleet and accounted for only 3 percent of the world total.

Moreover, almost three fifths of the bloc merchant ships are at least 20 years old and two fifths are more than 30 years old. Less than 12 percent are able to exceed a normal cruising speed of 12 knots. At least 60 percent of the vessels are smaller than 2,000 GRT and 80 percent are smaller than 5,000 GRT, making for what is primarily a coastal merchant marine.

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The most serious weakness of the bloc's merchant marine is the acute shortage of tankers. As of 1 June 1954, there were only 55 tankers, aside from the Caspian Sea fleet, most of them below 4,000 GRT. This compares with an American tanker fleet of more than 450 vessels, almost all of them large. In spite of the progress of the Soviet tanker construction program and the building of a few additional tankers in Finland and Sweden, the continued COCOM tanker embargo will prevent the bloc from overcoming this deficiency in the next few years.

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